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# Programme and Budget Committee

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## APPLICATION OF THE SPLIT-CURRENCY SYSTEM OF ASSESSMENT

Report by the Secretariat

Summary

Provides information on the feasibility of introducing a system of constant dollar reporting and on the results of the monitoring of expenditure patterns. Discusses the appropriateness of the second sentence of financial regulation 5.1(d).

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### Introduction

1. The split-currency system of assessment has been subject to ongoing review by the Secretariat since the system was first introduced for the 1988-1989 biennium.

2. The present document, prepared in response to Programme and Budget Committee conclusion 1991/9, paragraphs (c)(i) to (iii), continues to examine aspects of the system and, in particular, constant dollar reporting, monitoring of expenditure patterns and improvements to the expenditure review mechanisms.

3. In compliance with General Conference resolution GC.4/Res.27, paragraph 8, the document also provides a review of the appropriateness of the second sentence of financial regulation 5.1(d) which was suspended for 1992-1993.

### I. CONSTANT DOLLAR REPORTING

4. The Programme and Budget Committee in its conclusion 1991/9 took note of the report of the Director-General on the review of the split-currency system of assessment contained in document PBC.7/5 and requested the Secretariat, inter alia, to continue to examine the feasibility of introducing a system of constant dollar reporting for the 1992-1993 biennium.

5. In line with conclusion 1991/9(iv) requesting the Secretariat to report on future budgets on the basis of the exchange rate approved by the General Conference for the respective budgets, financial performance reports and financial tables related to the 1992-1993 budget and submitted to the policy-making organs during the current biennium will be presented by the Secretariat on the basis of the budget exchange rate (US$ 1 = AS 12.90). Regular and operational budget programme allotment documents are issued and controlled on the basis of the budget exchange rate. Schilling-based expenditures are recorded for allotment control purpose at the budget rate of exchange.

6. Under a system of constant dollar reporting, income and expenditures in Austrian schillings would be recorded applying the constant dollar exchange rate used for the preparation of budgetary estimates. The constant dollar methodology permits a comparison of actual income and expenditure with approved appropriations as both are stated using the same constant dollar exchange rate. Organizations within the United Nations system reporting on a constant dollar basis generally include a separate appropriation section to account for the difference between expenditures recorded at the United Nations operational rate of exchange and those recorded at the constant dollar rate. The approved appropriations for UNIDO for 1992-1993 do not include an appropriation section for exchange differences.

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7. The Organization will not, therefore, be able to present the final financial performance report and financial statements for the 1992-1993 biennium on a constant dollar basis. The presentation of biennial reports must reflect the appropriations for 1992-1993 as approved on the basis of an adjustment formula that takes account of the average United Nations dollar-schilling exchange rate which will be experienced during the biennium. The financial performance report for the biennium as a whole will be presented on the basis of the appropriation resolution GC.4/Res.27, paragraph 2 and will provide details of 1992-1993 expenditures expressed in United States dollars using the United Nations operational exchange rates for comparison with approved 1992-1993 appropriations.

8. The Secretariat is of the view that the introduction of a constant dollar system of reporting should be reconsidered at a later date on the basis of the experience gained during 1992-1993 on the use of a budget exchange rate for presentation of performance reports and financial tables during the biennium.

## II. MONITORING OF EXPENDITURE PATTERNS AND IMPROVEMENTS TO EXPENDITURE REVIEW MECHANISMS

9. The Programme and Budget Committee in its conclusion 1991/9 (c)(ii) requested the Secretariat to continue to monitor the expenditure patterns and further improve the expenditure review mechanisms. The monitoring of expenditure patterns is undertaken to identify the mix of schilling-based and dollar-based expenditures under the regular budget. The resulting percentage mix is used as the basis for establishing the amounts of dollar and schilling assessments under the split-currency system of assessment.

10. The monitoring of the expenditure pattern to identify the percentages of dollar-based and schilling-based expenditures first undertaken during 1988-1989 has continued for the biennium 1990-1991. An analysis of dollar- and schilling-based disbursements for 1990-1991 in the annex to the present report shows that the dollar-based portion of expenditures represents 12 per cent of total expenditures at an exchange rate of US$ 1 = AS 12.90.

11. Improvements to the expenditure review mechanisms within the Secretariat have been introduced in 1992. A computer-based system became operational on 1 January 1992 that identifies schilling-based expenditures by object of expenditure in the monthly status reports of regular and operational budget expenditures. The separation of expenditures in the budget reports will facilitate the identification of schilling- and dollar-based expenditures incurred during the biennium.

## III. FINANCIAL REGULATION 5.1(d)

12. The General Conference in its resolution GC.4/Res.27, inter alia, approved the programme and budgets for 1992-1993 as contained in documents GC.4/42 and Add.1.

13. In paragraph 2 of resolution GC.4/Res.27, the Conference appropriated an amount of $181,013,400 on the basis of an exchange rate of US$ 1 = AS 12.90, which was the rate used in the preparation of estimates presented to the Programme and Budget Committee and the Industrial Development Board at their seventh and eighth sessions respectively (PBC.7/10-IDB.8/8).

14. In paragraph 8 of the same resolution, the Conference decided to suspend for 1992-1993 the second sentence of financial regulation 5.1(d), which stipulates that the initial assessment in Austrian schillings shall be established at the United Nations accounting rate of exchange in effect at the time the regular budget is adopted by the Conference. At the same time the Conference requested the Director-General in consultation with the External Auditor to review the appropriateness of that sentence and report thereon through the Programme and Budget Committee and the Industrial Development Board to the General Conference at its fifth session.

15. The present report, which has been prepared in consultation with the external auditors, addresses the appropriateness of the use of the United Nations rate of exchange (US$ 1 = AS 12.90) to present the appropriations in GC.4/Res.27 and the implications of the suspension of the last sentence of financial regulation 5.1(d).

### Exchange rate - appropriations and assessments

16. For the first two bienniums following the introduction of the split-currency system of assessment in 1988, the General Conference resolutions relating to the appropriation of funds for the regular budget have presented the appropriations at the United Nations rate of exchange in operation at the time of the Conference, even though no specific financial regulation calls for the presentation of the appropriations at the United Nations rate of exchange. However, financial regulation 5.1(d) does, in its second sentence, state that the initial assessment in Austrian schillings shall be established at the United Nations accounting rate of exchange in effect at the time the regular budget is adopted by the Conference. The past practice of stating the appropriations at the United Nations rate of exchange at the time of the Conference served two purposes:

(a) The appropriations (consisting of United States dollar and Austrian schilling components) were presented at the current rate of exchange, thereby giving the most up-to-date value of the budget estimates expressed in United States dollars.

(b) The appropriations were stated using the same exchange rate as the initial assessment of Member States, in accordance with the second sentence of financial regulation 5.1(d), thereby ensuring that appropriation and assessment were presented at the same dollar values.

17. In accordance with financial regulation 5.1(d), the assessment of contributions of Member States is established in a component in United States dollars and the remainder in Austrian schillings in direct proportion to the respective shares of regular budget expenditures determined by the Conference to be linked to these two currencies.

18. The suspension of the second sentence of financial regulation 5.1(d) does not result in any

change in the assessment of Member States which is approved in separate components of dollars and schillings. This conforms with financial regulation 5.5(e) which states, inter alia, that contributions to the regular budget are established in United States dollars and Austrian schillings in the ratio determined in accordance with financial regulation 5.1(d).

19. For the biennium 1992-1993, paragraph 2 of resolution GC.4/Res.27 provides for the adjustment of the amounts in the appropriations at the end of the biennium in accordance with a formula which applies to the schilling component of the appropriation the average United Nations dollar-schilling exchange rate for the biennium. Assessments, which are also stated in United States dollars and Austrian schillings, are subject to the application of the same formula. Therefore, at the end of a biennium, appropriations and assessments are stated at the same dollar equivalent.

20. The practical application of paragraph 2 of resolution GC.4/Res.27 means that the second sentence of financial regulation 5.1(d) has no impact on the level of dollar and schilling assessments or on the final determination of the appropriations and assessments for the biennium.

21. However, the presentation of the appropriations and assessments should be made using the most up-to-date United Nations operational rate of exchange rate at the time the budget is approved. To meet this requirement, it would be possible to present the appropriation at the exchange rate used in preparing budget estimates together with an exchange adjustment showing the difference between the budget rate and the United Nations exchange rate currently in effect. This exchange adjustment would not affect the overall assessment of Member States which would continue to be shown with separate components in United States dollars and Austrian schillings.

22. To include such an exchange adjustment in the budget resolution would have the benefit of disclosing the current value of the total appropriation in United States dollar terms at the time of approval while eliminating the necessity of restating the individual major programme appropriations at the current United Nations rate of exchange.

Conclusion

23. Since the second sentence of financial regulation 5.1(d) tends to enhance transparency and comparability by encouraging the presentation and adoption of the budget appropriations at the United Nations accounting rate of exchange at the time of the Conference, it should be retained.

24. Further consideration should be given to the possibility of presenting the difference between the rate of exchange used in the preparation of the budget estimates and the United Nations rate of exchange at the time the regular budget is adopted by the Conference as an exchange rate adjustment on the understanding that this exchange adjustment would not be assessed on Member States.

## IV. ACTION REQUIRED OF THE COMMITTEE

25. The Committee may wish to take note of the information contained in the present report.

Annex

REGULAR BUDGET, 1990-1991: a/ ANALYSIS OF DISBURSEMENTS b/

(In thousands of US dollars at US$ 1 = AS 12.90)

| | Austrian schilling portion at US dollar equivalent | % | United States dollar portion | % | Total (100%) |
|---|---|---|---|---|---|
| Object of expenditure | | | | | |
| Salaries | 88,306 | 97 | 3,077 | 3 | 91,383 |
| Common staff costs | 19,295 | 65 | 10,562 | 35 | 29,857 |
| Travel on official business | 1,810 | 62 | 1,120 | 38 | 2,931 |
| Contractual services | 376 | 62 | 226 | 38 | 602 |
| General operating expenses | 19,882 | 96 | 888 | 4 | 20,770 |
| Supplies and materials | 2,500 | 89 | 325 | 11 | 2,825 |
| Acquisition of furniture and equipment | 655 | 91 | 67 | 9 | 722 |
| New premises, including additions | 0 | 0 | 175 | 100 | 175 |
| Other expenditure | 8,206 | 83 | 1,691 | 17 | 9,897 |
| Subtotal (A) | 141,030 | 89 | 18,132 | 11 | 159,162 |
| Actual income receipt | | | | | |
| Bank interest | 772 | 58 | 562 | 42 | 1,334 |
| Reimbursement of administrative services | 0 | 0 | 731 | 100 | 731 |
| Prior years refund | 303 | 49 | 313 | 51 | 616 |
| Sale of equipment | 0 | 0 | 9 | 100 | 9 |
| Other | 622 | 100 | 0 | 0 | 622 |
| VIC cost-sharing | 16,754 | 98 | 311 | 2 | 17,065 |
| Publications | 0 | 0 | 132 | 100 | 132 |
| Subtotal (B) | 18,451 | 90 | 2,057 | 10 | 20,508 |
| TOTAL (A) - (B) | 122,579 | 88 | 16,074 | 12 | 138,654 |

a/ In accordance with the Constitution of UNIDO, Annex II.B, 6 per cent of the total of the regular budget should finance technical cooperation activities. This would provide funding in line with the split-currency ratio agreed upon for the total net regular budget.

b/ Adjusted for payments in United States dollars which are Austrian schilling-based and vice versa.